

# **Testimony to House Committee on Appropriations related to the University of Kansas Request for Bond Authority**

**March 11, 2025**

**By Jeff DeWitt, Executive Vice Chancellor and Chief Financial Officer, University of Kansas**

Good morning, Chairman Waymaster and members of the House Committee on Appropriations. My name is Jeff DeWitt. I am the Executive Vice Chancellor and Chief Financial Officer for the University of Kansas (KU). I am responsible for all financial aspects of KU, including the financing of capital facilities for the campuses. Today I am here to testify regarding the request for bonding authority to fund critical projects on the Lawrence and Medical Center campuses.

In planning for the construction of any significant capital project, a plan of finance is developed that looks at the design and construction cost, the timing of those costs (when contractors need paid), and the sources of funding available. Those sources may include state or federal grants, state appropriations, donor or private funds, cash available from the University, or proceeds from the sale of bonds to investors.

In instances where the sale of bonds is considered, the analysis looks at current debt levels, funding sources to repay the debt, credit ratings by rating agencies and access to the bond market to meet the project funding needs and timing. For KU, no large bond issuances have occurred since 2016 which has allowed for significant retirement of existing debt reducing the debt burden (total debt service / total expenditures) from 6.10% in 2020 to 4.55% in 2024 as documented in the Annual Financial Statement. See attachment 1. KU has a policy not to exceed a 7% debt burden and is ranked below the median level of similar rated peers in the Country. KU is in the AA rated category by both Moody's and Standard and Poor's.

With KU's relatively low debt burden and the need to proceed with three key projects, a new Cancer Center at the Medical Center in Kansas City, student housing on the Lawrence campus, and a new School of Architecture building on the Lawrence campus, KU is requesting Bond Authority from the State. In addition, State authority is requested to refinance debt issued in 2016 for the Central District Project that will achieve significant savings to KU. These bonds will be eligible to refinance in the future and authority is needed in advance to proceed with the process.

The University of Kansas is very appreciative of State and Federal funding and donations through KU Endowment for the Cancer Research Center. This project is a joint project with the Health System with the Cancer Research portion funded by the Medical Center and the clinical portion funded by the Health System. This over \$500 million dollar project will require approximately \$100 million in bond funds to complete the plan of finance for the Cancer Research Building to begin construction. Funding from research activity in the facility will provide resources to pay the annual debt service related to these bonds.

Due to record enrollment on the Lawrence campus, student housing, a critical element to the success of KU and its students, is at full capacity on the campus and in the Lawrence community. Currently KU is leasing significant space from private apartment owners and needs to begin retiring existing student

housing on campus that is at the end of its useful life. To relieve the significant housing pressure on campus and in the community as well as attract and retain students, KU will be looking at options to construct new housing. The \$100 million in bonding authority is a critical element to this strategy. Student housing payments for the new facilities will fund the operating expenses and annual debt service related to these bonds.

The School of Architecture & Design at the University of Kansas is a comprehensive design school that offers undergraduate and graduate programs in varied design disciplines. The National Architectural Accrediting Board (NAAB) is the sole agency authorized to accredit professional degree programs in architecture. KU's architecture degree programs are nationally recognized and have been continuously accredited since the early 20<sup>th</sup> Century. During the last three accreditation visits the NAAB accrediting teams consistently expressed concerns about the program's physical resources and facilities. To address these issues, a project consisting of three phases is planned and currently estimated to cost \$120 million in total from a combination of private donations, bond funding, and other sources to be identified. The first phase, estimated to cost \$60 million, is to build a 50,000 square foot addition to Marvin Hall; the second phase is to renovate 38,000 square feet of Marvin Hall; and the final phase is to renovate 59,000 square feet of Chalmers Hall. Bond authority for Phase I of \$60 million is requested with the annual debt service paid by revenues from the School and other funds identified by the University.

In 2016, the Central District Project was financed with bonds through a Wisconsin finance authority and funded a new Integrated Sciences building, a new student residence hall (with a dining center), new apartment-style residential living space, a new student union building, a new multi-level parking structure, a new central utility plant, and infrastructure improvements. In less than a year, the University of Kansas has the opportunity to refinance the bonds and will do so through KDFA. At this time the bonds will have outstanding principal of \$275.2 million. Estimates, based on current interest rates provided by KDFA, indicate KU will have potential debt service savings over 7% with the refinancing. The debt service payments will continue to be funded by student housing, parking, KU Memorial Union, and the University. KU requests authority for the bond refinancing through KDFA.

In summary, the University of Kansas respectfully requests bonding authority for the three projects mentioned and the refinancing authority for the Central District Project to continue to move the University forward on its important academic and research missions while remaining competitive with its peer institutions. Thank you for your time.

## **Attachment 1**

### **Historical Debt and Capacity**

	FY2020	FY2021	FY2022	FY2023	FY2024
Total Debt	\$ 697,383	\$ 691,088	\$ 664,027	\$ 685,158	\$ 664,461
Debt Burden Ratio <sup>(1)</sup>	6.10%	5.83%	5.72%	4.99%	4.55%

Source: University of Kansas Annual Financial Reports

### **Planned Future Financings**

- New School of Architecture building - \$60 million
- Cancer Center building - \$100 million
- New Student Housing - \$100 million
- Central District Project Bond Refinancing

### **Forecasted Debt and Capacity with Planned Future Financings**

	Actual FY2023	Actual FY2024	Forecasted FY2025	Forecasted FY2026	Forecasted FY2027	Forecasted FY2028
Total Debt	\$ 685,158	\$ 664,461	\$ 726,419	\$ 839,862	\$ 899,858	\$ 860,227
Debt Burden Ratio <sup>(1)</sup>	4.99%	4.55%	4.36%	4.51%	5.04%	5.42%

Note: This does not reflect estimated savings from the Central District bond refinancing.

<sup>(1)</sup> The debt burden ratio is calculated by taking the principal and interest payments for all debt for the year divided by total expenses, excluding depreciation, plus principal payments. KU's policy states this ratio cannot exceed 7%.

## **Attachment 2**

### **Summary of Projects Requests for Legislative Approval to Issue Bonds**

#### **1. University of Kansas Cancer Center**

##### **Request**

The University of Kansas Medical Center (KUMC) requests legislative approval to issue bonds (not to exceed \$100 million) to fund the construction of the Cancer Research Building. This project aims to provide advanced research space and foster an environment that supports cancer research, education, and clinical trials, which are vital for continued growth in KUMC's cancer research initiatives.

##### **Background**

KUCC earned the National Cancer Institute's (NCI) prestigious designation as a Comprehensive Cancer Center in July 2022, placing it among the nation's top cancer research institutions. To support the goals associated with this designation, KUCC is constructing a Cancer Research Building with an estimated cost of approximately \$250 million. Completion is targeted for fiscal year 2027. The new Cancer Center Research Building is expected to provide the necessary infrastructure to attract top-tier faculty, secure additional research funding, and drive advancements in cancer treatment and prevention. Funding sources will include a combination of state support, philanthropic donations, federal research grants, and bond funding, ensuring that the Center has the resources necessary to maintain and grow its research capabilities.

The Cancer Research Building will also foster greater collaboration with state health agencies and community health providers, strengthening public health initiatives and contributing to improved cancer outcomes for Kansas residents. The center's growth is expected to support the healthcare workforce pipeline by training future cancer researchers and healthcare professionals.

#### **2. University of Kansas School of Architecture**

##### **Request**

The University of Kansas requests legislative approval to issue bonds (not to exceed \$60 million) to fund phase one of the School of Architecture capital project. Phase one consists of an addition to Marvin Hall that provides an additional 50,000 square feet needed for critical studio and teaching space.

##### **Background**

The School of Architecture & Design at the University of Kansas is a comprehensive design school that offers undergraduate and graduate programs in varied design disciplines, including architecture, interior architecture, industrial design, visual communication design, Illustration, Animation, and Interaction Design. The National Architectural Accrediting Board (NAAB) is the sole agency authorized to accredit professional degree programs in architecture. KU's architecture degree programs are

nationally recognized and have been continuously accredited since the early 20<sup>th</sup> Century. During the last three accreditation visits over the last 20 years or so, the NAAB accrediting teams consistently expressed concerns about the program's physical resources, stating that recent space allocations for the program have resulted in a network of separate buildings and spaces that are incongruent, without cohesive identity, and lacking a central hub. The team observed that this configuration caused faculty isolation and prevented interaction between academic year-levels and a lack of awareness for work among the studios. In conclusion, the team expressed concern for the significant loss of culture and student performance as a result of these deficiencies.

The School is currently housed in seven locations across campus (down from nine), with a shortfall of needed studio, teaching, office, and common area spaces. Those facility limitations currently prevent KU from admitting more qualified applicants. The planned capital improvement project would create the space needed to house existing programs and expand programming options in a consolidated space.

### **3. University of Kansas Student Housing**

#### **Request**

The University of Kansas requests legislative approval to issue bonds to fund future student housing needs including the possible construction of a new student residence hall and purchase of an existing leased apartment complex on the Lawrence campus.

#### **Background**

The University of Kansas has experienced historical enrollment growth and expects to maintain and or increase that growth in future years. The existing student housing stock is at capacity with the city experiencing similar challenges. Additional on-campus housing is required to accommodate the growth and to further provide a more diverse variety of housing options. The University of Kansas is exploring options such as the possible construction of a new student residence hall as well as the purchase of an existing leased apartment complex at a cost not to exceed \$100 million. Student housing revenues will fund the annual debt service.

### **4. University of Kansas Central District Refinancing**

#### **Request**

The University of Kansas requests legislative approval to refinance bonds through the Kansas Development Finance Authority (KDFA) to achieve significant reductions in debt service. The original bonds were issued in 2016 for the University of Kansas Central District project.

#### **Background**

The University of Kansas issued \$326.9 million in bonds through the Public Finance Authority, a finance authority in Wisconsin, in 2016 for the Central District Project which included a new Integrated Sciences building, new student residence hall (with a dining center), new apartment-style residential living space, a new student union building, a new multi-level parking structure, a new central utility plant, and infrastructure improvements. In March of 2026, the University of Kansas has the opportunity to refinance the bonds and will do so through KDFA. At this time the bonds will have

outstanding principal of \$275.2 million. Estimates based on current interest rates provided by KDFA indicate the University will have potential debt service savings over 7% with the refinancing. The debt service payments will continue to be funded by student housing, parking, KU Memorial Union and the University.